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C O N F I D E N T I A L SECTION 01 OF 03 HARARE 000180

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AF/S FOR B. NEULING
NSC FOR SENIOR AFRICA DIRECTOR C. COURVILLE
STATE PASS TO USAID FOR M. COPSON AND E.LOKEN
TREASURY FOR J. RALYEA AND B. CUSHMAN
COMMERCE FOR BECKY ERKUL

E.O. 12958: DECL: 01/12/2016
TAGS: ECON EFIN PGOV EINV ETRD ZI
SUBJECT: BELEAGUERED BUSINESS LEADERS SAY POLICY CHANGES INEVITABLE - BUT WHEN?

REF: HARARE 127

Classified By: Ambassador Christopher Dell under Section 1.4 b/d

Summary

¶1. (C) At an economic roundtable hosted by the Ambassador on February 8, five leading businessmen had little doubt about the inevitability of a GOZ shift to market-driven policies but differed on its likely timing. They agreed that the speed of economic deterioration was accelerating, the economic cycles were shortening, and recoveries were weakening. They expressed concern about the hollowing out of the middle class, the loss of human capital, and decline in business ethics, but felt that the country remained fundamentally capitalistic and would respond quickly to a shift to market economics. They bemoaned the GOZ's gross mismanagement of parastatals and commended South Africa for exercising its economic weight in dealing with Zimbabwe. The businessmen were strongly supportive of USG sanctions policy, particularly as it affected the offspring of specially designated individuals, but warned that "doctoring" of documents took place. End Summary.

Policy Shift Inevitable, Unclear How Soon

¶2. (C) Five businessmen invited by the Ambassador to an economic roundtable were divided on how soon a shift to market driven policies would occur. One thought the shift could take place as early as this year. Another thought it may be as late as 2008 - not necessarily because of the scheduled presidential election that year but because GOZ policy-makers would dither that long. The five, from the financial services sector, the fertilizer industry and the manufacturing sector, expressed little doubt, however, about its inevitability.

¶3. (C) The group agreed with the Ambassador's observation that the speed of economic deterioration was accelerating, the economic cycles shortening, and recoveries weakening. Nonetheless, they expressed confidence that the country, which they described as strongly capitalistic, would respond quickly and favorably to the right policy shift. They voiced concern, in the interim, about the erosion of civil servant wages, the hollowing out of the middle class, and the decline in the quality of education, which has long been Zimbabwe's great strength.

"Horrific Decline;" Pervasive Obstacles

¶4. (C) DeLoitte & Touche Senior Partner Tawanda Gumbo said, for example, that only one third of Zimbabwe's Chartered Accountants (CA) remained in the country and only about 20 percent of each year's freshly minted CAs stayed on. Gumbo said that some CAs who left three years ago had returned recently, expecting that Zimbabwe was about to "hit rock bottom" and opportunities would soon open up. (N.B. At a presentation to the IMF mission in January, David Scott, PricewaterhouseCoopers Senior Partner, claimed a shortage of 2000 CAs in Zimbabwe.) The roundtable participants felt that South Africa was able to absorb and was even actively seeking highly qualified Zimbabweans, especially engineers. The brain drain would continue, they agreed, and the longer the emigrants stayed away, the weaker their ties to Zimbabwe would become.

¶5. (C) The group lamented the "horrific decline" in business ethics over the past five years, particularly in regard to young entrepreneurs. Zimbabweans, including themselves, simply were unable to make money without breaking some laws. Mirroring IMF concerns (reftel), participants were deeply disquieted by the systemic erosion of rule of law throughout

Zimbabwe. While conceding that some of the elite were getting "stinking rich," they also shared anecdotal evidence of the breakdown of the patronage system, and concurred with the Ambassador that there was increasingly "less to go around."

¶6. (C) The businessmen maintained that there was more liquidity in the private than in the public sector today, essentially "turning the tables" since the forex crunch of last year. Even with the recent forex policy reversals, liberalized enforcement had improved private sector access to hard currency/fuel. As a consequence, the public sector now had to compete harder for access to an ever-shrinking pot.

¶7. (C) Extensive private sector obstacles remained pervasive, however. Mario dos Remedios, Chief Financial Officer of NMB Bank, for example, was unsettled by pressure from the Reserve Bank of Zimbabwe (RBZ) on the banks to buy government paper at negative rates of return, as the RBZ struggled to finance its quasi-fiscal activities. He also bemoaned the zigzagging in foreign exchange policy and the uncertainty it generated. He cited the introduction of the interbank foreign exchange market in October followed by re-assertion of RBZ control of the rate three months later. Dos Remedios noted that although the banking sector was currently healthy, these kinds of policies could reverse the situation very quickly, a point made by the recent IMF mission as well.

Appalling Parastatal Mismanagement

¶8. (C) Illustrative of the appalling mismanagement of parastatals, John Legat, CEO of Imara Asset Management, compared Air Zimbabwe, which consumed 41 percent of all GOZ parastatal support in 2005, with privately owned Ireland-based Ryanair. The former flew 6 airplanes to 15 destinations and employed 2000 staff; the latter flew 91 airplanes on 248 routes and employed 2,700 staff. While Ryanair ran a profit, Air Zimbabwe was deeply in the red to both foreign and local creditors and to the GOZ. The businessmen concurred broadly with the Ambassador's assessment that parastatal payrolls were probably carrying a high number of ghost workers and otherwise extremely vulnerable to abuses by well-connected insiders.

South Africa,s Role

¶9. (C) The business leaders predicted that South Africa would eventually have to discontinue or reduce provision of electric power to Zimbabwe in light of its own increasing domestic demand and the risk of nonpayment. They commended South Africa's tough stance on loan negotiations and willingness to use its economic might in the region to influence politics. They also expressed alarm about the growing economic strength and influence of China not only in Zimbabwe, but in South Africa as well.

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Sanctions Biting, But Also Signs of Circumvention
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¶10. (C) The businessmen agreed that sanctions against Specially Designated Nationals (SDN) were hurting the ruling elite. They were particularly supportive of U.S. travel sanctions on offspring of the high-level party and GOZ officials who had forsaken the local education system. They conceded nonetheless that some targeted individuals had found ways to manipulate their children,s documents to conceal relationships. (N.B. Corroborating this observation, an administrator at another of Harare,s leading prep schools relayed to econoff in November that Emmerson Mnangagwa,s family had succeeded in obtaining a U.K. student visa for one daughter by "doctoring" her birth certificate after the British Embassy had turned her down. We relayed the information to the British Embassy.)

Comment

¶11. (C) For years now, the private sector here has been saying "this can't last much longer," and each year Zimbabwe's economic disaster deepens further. Importantly, 2006 already appears to be the year that, as IMF mission chief Sharmini Coorey recently suggested (reftel), the Zimbabwean economy loses sufficient foundation to support any rebound on its own. As a growing number here sense the increasing bite of the country's economic decline, the ruling party's opaque succession game raises fundamental questions about who can engineer a post-Mugabe future, desperately needed economic reforms, and when.